

**BY HAND**

December 17, 2003

Mary Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station, 2nd Floor  
Boston, MA 02110

Re: Massachusetts Electric Company and Nantucket Electric Company, D.T.E. 03-124

Dear Secretary Cottrell:

On November 21, 2003, Massachusetts Electric Company and Nantucket Electric Company ( "MECo" or "Company") filed a petition with the Department of Telecommunications and Energy ("Department") seeking approval of a distribution rate increase under the terms of a settlement agreement related to the merger of Massachusetts Electric Company and the Eastern Utility Association. *Massachusetts Electric Company/Eastern Edison Company*, D.T.E. 99-47 (2000) ("Settlement Agreement"). This agreement permits changes in distribution rates related to changes in a specific list of exogenous factors. *Settlement Agreement*, pp. 10-17. On December 10, 2003, the Department issued an order of notice requesting comments by December 17, 2003. Pursuant to that notice, the Attorney General submits this letter as his Initial Comments.

Under the provisions of the Settlement Agreement, MECo seeks a rate increase of \$0.00014 per kilowatt-hour ("KWH") effective on January 1, 2004, during the distribution rate freeze period approved as part of the merger. *Massachusetts Electric Company/Eastern Edison Company*, D.T.E. 99-47 (2000) ("Settlement Agreement", p. 16). According to MECo's petition, net exogenous events should result in a \$3.1 million distribution rate increase. The proposed exogenous changes include a \$2.1 million decrease related to changes in tax depreciation rules. Cost increases, the Company argues, total \$5.2 million and more than fully offset any exogenous reductions. The increases included \$1.8 million from the Company's unilateral reclassification of congestion costs from transmission to distribution, and \$3.4 million purportedly from changes in renewable portfolio standards and standard offer service costs incurred as a result of standard market design.

The Company's filing raises a number of concerns, including the failure of MECo to take into consideration the reclassification of costs contemplated by the Department in *Default Service*, D.T.E. 03-88 (2003), and the Company's unilateral reclassification of transmission costs

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to distribution. *Settlement Agreement*, p.14 §I(C)1. According to the express terms of the Settlement Agreement, any of the specifically listed exogenous cost “adjustments shall be subject to review, and after public hearing and approval by the Department, shall be implemented for usage after January 1 of the following year. . . . through a uniform and fully reconciling surcharge or refund . . . .” *Settlement Agreement*, p. 16, §I(C)2. In accordance with the Settlement Agreement, the Attorney General requests a full investigation and hearing into the Company’s proposal prior to any final approval by the Department.

Sincerely,

Alexander Cochis  
Assistant Attorney General